

Minutes
North Dakota Public Employees Retirement System
Thursday, April 18, 2002
Blue Cross Blue Shield Office
107 W Main
Bismarck, ND
8:30 A.M.

Members Present:	Mr. Weldee Baetsch Mr. David Gunkel Mr. Ron Leingang Mr. Howard Sage Ms. Sandi Tabor
Via Video Conference	Chairman Jon Strinden
Others Present:	Mr. Sparb Collins, Executive Director NDPERS Ms. Kim Humann, NDPERS Ms. Kathy Allen, NDPERS Ms. Deb Knudsen, NDPERS Ms. Sharon Schiermeister, NDPERS Mr. Bryan Reinhardt, NDPERS Mr. Scott Miller, Attorney General's Office Mr. Steve Cochrane, ND RIO Ms. Arvy Smith, Health Department Ms. Rhonda Peterson, BCBSND
Via Video Conference	Mr. Larry Brooks, BCBSND
Via Video Conference	Mr. John Garrett, The Segal Company
Via Video Conference	Mr. Bill Robinson, The Segal Company

Chairman Strinden called the meeting to order at 8:30 a.m.

MINUTES

Chairman Strinden called for any questions or comments regarding the minutes of the March 21, 2002 meeting.

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MS. TABOR MOVED APPROVAL OF THE MINUTES AS SUBMITTED. MR. LEINGANG SECONDED THE MOTION.

Ayes: Baetsch, Gunkel, Leingang, Sage, Tabor, Chairman Strinden

Nays: None

Absent: Dr. Dwelle

PASSED

RETIREMENT

Law Enforcement Study (Informational)

The Legislative Employee Benefits Committee has been studying the possibility of developing a law enforcement retirement plan under PERS. They requested that PERS send the proposed legislation to The Segal Company to review the actuarial cost and obtain their technical comments. Included with the board materials was The Segal Company's response. Based upon this information, Mr. Reinhardt reviewed the incremental cost to the state based upon the present contribution level. Also included with the board materials were his findings by agency. This information will be provided to the Legislative Employee Benefits Committee at their next meeting.

Disability Contract (Board Action Requested)

Ms. Allen indicated the contract with Mid Dakota Clinic for disability consulting services expires June 30, 2002. The Board must determine whether to go out for bid or renew the present contract. Staff recommended renewing the disability consulting contract with Mid Dakota Clinic for the period July 1, 2002 through June 30, 2003.

MR. LEINGANG MOVED APPROVAL FOR RENEWAL OF THE DISABILITY CONSULTING SERVICES CONTRACT WITH MID DAKOTA CLINIC. MR. BAETSCH SECONDED THE MOTION.

Ayes: Baetsch, Gunkel, Leingang, Sage, Tabor, Chairman Strinden

Nays: None

Absent: Dr. Dwelle

GROUP INSURANCE

Summary Plan Description (SPD) Timeline (Informational)

Ms. Allen indicated included with the board materials was a preliminary schedule developed by BCBS and PERS staff for mailing the group health SPD. The upcoming 2003-05 renewal period was used as the basis for developing the schedule. The timeline itemizes the work efforts involved to produce the SPD and the approximate time associated with each task assuming it can be completed within the parameters on the schedule. The next step in this process will be to submit the schedule to BCBS executive staff for review. Staff will continue to update the Board as they progress with this project.

Heart of America HMO Contract (Board Action Requested)

Ms. Allen conveyed Heart of America in Rugby has requested to continue offering its HMO membership to state employees in their Rugby and Minot service areas. The term of this renewal is from July 1, 2002 through June 30, 2003. The single and single plus dependent rate increase is between 8 and 9% and the family rate increase is approximately 4%. A copy of their current Provider Agreement was included with the board materials. In the past years they also requested the Board to consider allowing them to expand in the Minot area and they are asking that again for the upcoming contract period. Discussion followed. The Board directed staff to explore with the BCBS the potential impact of allowing Heart of America HMO to expand into the Minot service area and report its findings back to the Board.

**MS. TABOR MOVED APPROVAL OF THE CONTRACT FOR THE RUGBY SERVICE AREA.
MR. GUNKEL SECONDED THE MOTION.**

Ayes: Baetsch, Gunkel, Leingang, Sage, Tabor, Chairman Strinden

Nays: None

Absent: Dr. Dwelle

PASSED

RETIREMENT

Asset Allocation (Board Action Requested)

The Investment Subcommittee recommended conducting a new asset allocation study for the Main System and the Retiree Health Plan as a result of the change that has occurred in the capital markets. Mr. Cochrane, RIO, informed the Investment Subcommittee that SEI, a firm retained to manage the small cap investments, has indicated that as part of that relationship they would be willing to conduct such a study for no additional fee. Therefore, the Committee recommended using this firm. In conducting this study the firm will need to know the goals and objectives of PERS, which are currently being reviewed by the Board. One of the issues facing PERS is that the normal cost now exceeds the statutory rate. What this means is that those ideas that have an effect on the normal cost will likely need to be funded by additional contributions. By contrast, those ideas not having an effect on normal cost could be funded out of investment earnings. Mr. John Garrett, The Segal Company, joined the meeting via video conference and provided an overview of PERS Basics of Pension Funding, which is available for review at the PERS office. Discussion followed. In summary, Mr. Garrett concluded that:

- Normal costs are the ultimate cost and exist as long as actives accrue benefits;
- For the statutory rate to continue to be sufficient under the current funding policy, the amortization of the Unfunded Accrued Liability (UAL) must continue to offset the normal cost;
- The UAL is being adversely impacted by recent asset losses;
- Assuming no other sources of gains or losses other than assets, the current margin is absorbed even with 10% returns for the next five years;
- A benefit enhancement which increases the normal cost rate or the accrued liability without increasing contributions will add further pressure on asset return and may result in a long term commitment without a long term source of funding.

MR. SAGE MOVED APPROVAL FOR SEI TO CONDUCT THE ASSET ALLOCATION STUDY BASED UPON CURRENT MARKET ASSUMPTIONS AND GOALS PREVIOUSLY SELECTED. MR. GUNKEL SECONDED THE MOTION.

Ayes: Baetsch, Gunkel, Leingang, Sage, Tabor, Chairman Strinden

Nays: None

Absent: Dr. Dwelle

PASSED

Request for Proposals Voluntary Insurance Products (Board Action Requested)

The analysis from The Segal Company for the voluntary Dental, Vision and Long Term Care plans was included with the board materials. Mr. Collins conveyed last summer AFLAC submitted a letter to PERS requesting to be included on future bid lists. The PERS list of potential bidders was forwarded to The Segal Company. However, AFLAC contacted PERS and indicated they did not receive the RFP. Mr. Collins pointed out the RFP notice was sent to all newspapers in North Dakota. Mr. Miller, legal counsel, will also review this matter. Mr. Collins inquired whether the Board would like to address this issue with AFLAC. Mr. Bill Robinson, the Segal Company, joined the meeting via video conference and provided an overview of the results.

Group Voluntary Long Term Care (LTC)

No timely proposals were submitted for the group voluntary LTC insurance plan. The incumbent, UNUM, has agreed to continue the existing coverage at current rates and guaranteed them until January 1, 2003.

Group Voluntary Dental

Three insurance carriers, American General/United State Life Insurance, Delta Dental of Minnesota and ING Employee Benefits/Reliastar (incumbent) submitted proposals. The American General/US Life proposal was submitted by Frontier Personnel Services, Three Delta proposals were submitted, one directly from Delta and the other from Frontier Personnel Services (with commissions). Further, Delta proposed a number of

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different plan designs for both the direct and the Frontier proposals. Segal selected Plans 2 and 3 as the ones closest to the current plan design.

- ✓ ING/Reliastar quoted the existing plan of benefits at the current rates quarantined for one year. No commissions are included.
- ✓ American General/US Life proposed a plan of benefits similar to the current design without a \$10 office visit copayment) at approximately 35% above current rates, guaranteed for one year. A 2.5% commission is included in the premiums.
- ✓ Delta Dental submitted a number of plan designs (both directly and through Frontier). Plan is priced approximately 18% to 15% (through Frontier) below current rates. Its benefits are less than the current plan, but it has no waiting periods. Plan 2 which virtually duplicates the current plan design and waiting periods is priced approximately 12% to 16% (through Frontier) over current and renewal rates with ING/Reliastar. All Delta rates are guaranteed for two years. Delta plans feature a participating provider network, which requires the participant to pay dental fees above the UCR allowance ("balance billing")

The video conferencing link to The Segal Company was disconnected.

MR. LEINGANG MOVED TO AWARD THE DENTAL PLAN TO THE CURRENT CARRIER, RELIASTAR. MS. TABOR SECONDED THE MOTION.

Ayes: Baetsch, Gunkel, Leingang, Sage, Tabor, Chairman Strinden

Nays: None

Absent: Dr. Dwelle

PASSED

MS. TABOR MOVED TO RECONSIDER THE PREVIOUS MOTION AND REQUEST AFLAC TO SUBMIT A BID FOR THE VOLUNTARY INSURANCE PRODUCTS BY THE NEXT REGULAR BOARD MEETING. MR. GUNKEL SECONDED THE MOTION.

Ayes: Baetsch, Gunkel, Leingang, Sage, Tabor, Chairman Strinden

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Nays: None

Absent: Dr. Dwelle

PASSED

MS. TABOR MOVED TO RESCIND PRIOR ACTION OF AWARDING THE DENTAL PROGRAM TO RELIASTAR AND TO TABLE ANY FURTHER ACTION UNTIL THE NEXT REGULARLY SCHEDULED BOARD MEETING. MR. SAGE SECONDED THE MOTION.

Ayes: Baetsch, Gunkel, Leingang, Sage, Tabor, Chairman Strinden

Nays: None

Absent: Dr. Dwelle

PASSED

Smoking Program (Informational)

Staff reviewed the administrative expenses and projected them to the end of the biennium. It was determined that administrative expenses will be met without having to use the smoking cessation funds. Staff will move forward with developing some ideas for the Board's consideration on how to offer such a program during the last year of the biennium.

Employer Participation Agreement (Informational)

Included with the board materials was the amended Employer Participation Agreement incorporating the minimum participation requirements in Section III. This agreement will be used for new political subdivisions requesting participation beginning May 1, 2002. PERS and BCBS staff have a meeting scheduled to discuss the implementation of this policy for existing political subdivisions and the ongoing procedures to monitor compliance on an ongoing basis. Staff recommended approval of the amended Employer Participation Agreement.

MR. SAGE MOVED APPROVAL OF THE EMPLOYER PARTICIPATION AGREEMENT.

MR. BAETSCH SECONDED THE MOTION.

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Ayes: Baetsch, Gunkel, Leingang, Sage, Tabor, Chairman Strinden

Nays: None

Absent: Dr. Dwelle

PASSED

Surplus Affordability Update (Informational)

The February surplus projection and affordability analysis for the NDPERS group medical plan were included with the board materials.

Quarterly Health Graphs (Informational)

The quarterly health utilizations graphs for the 4th quarter of 2001 were included with the board materials. The trends appear to have a slight increase to them.

DEFERRED COMPENSATION/DEFINED CONTRIBUTION

TIAA/CREF (Board Action Requested)

At the last board meeting the Board requested the Investment Subcommittee to review the letter received from TIAA/CREF. The Investment Subcommittee recommended that TIAA/CREF be required to meet the established participation requirements (including the 50 participants). The Investment Subcommittee also suggested that PERS offer to provide notice to our members in the newsletter of the interest of TIAA/CREF and a contact person listed who may assist them in getting the required 50 participants. However, before providing this notice, a signed contract must be executed to ensure that all the other requirements could be met. The Investment Subcommittee recommended this format be followed for any other provider that is interested in participation.

MS. TABOR MOVED APPROVAL THAT TIAA/CREF BE REQUIRED TO MEET THE ESTABLISHED PARTICIPATION REQUIREMENTS. MR. BAETSCH SECONDED THE MOTION.

Ayes: Baetsch, Gunkel, Leingang, Sage, Tabor, Chairman Strinden

Nays: None

Absent: Dr. Dwelle

PASSED

Plan Documents (Board Action Requested)

Included with the board materials for review and approval by the Board were the Plan Documents for the PERS Companion Plan, the Deferred Compensation plan and the 401(a) Defined Contribution plan. These documents were recently updated for the EGTRRA changes; however, Congress recently passed the Economic Stimulus Package that had additional changes. Staff recommended approval of the plan documents.

**MR. GUNKEL MOVED APPROVAL OF THE PLAN DOCUMENTS. MS. TABOR
SECONDED THE MOTION.**

Ayes: Baetsch, Gunkel, Leingang, Sage, Tabor, Chairman Strinden

Nays: None

Absent: Dr. Dwelle

PASSED

EGTRRA & Administrative Rules Update (Board Action Requested)

An update of the EGTRRA action plan was included with the board materials. Several new tasks were added relating to the implementation of the economic stimulus action. Most of the tasks have been completed. Also included was a first draft of the revised Administrative Rules for the Deferred Compensation plan. The Administrative Rules that conflicted with EGTRRA were repealed with those changes effective April 1, 2002. The second step was to develop new Administrative Rules once the new procedures were developed in response to EGTRRA. Many of the new procedures and processes relating to the administration of the program have been reflected in the Plan Document. Staff proposed that the Administrative Rules be maintained and promulgated relating to those areas not covered in the Plan Document. Specifically these areas are: PERS Board Responsibilities, Employer Responsibilities and Provider Responsibilities. This first draft was submitted for review to determine if this approach of coordinating the Plan Documents and Administrative Rules in this

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manner was acceptable. Staff recommended approval of the approach for coordination of the Plan Documents and Administrative Rules.

MR. SAGE MOVED TO APPROVE THE APPROACH FOR COORDINATING THE PLAN DOCUMENT AND ADMINISTRATIVE RULES. MR. BAETSCH SECONDED THE MOTION.

Ayes: Baetsch, Gunkel, Leingang, Sage, Tabor, Chairman Strinden

Nays: None

Absent: Dr. Dwelle

PASSED

Defined Contribution & Deferred Compensation Booklets (Informational)

The Summary Plan Documents for the Deferred Compensation and Defined Contribution Plans were included with the board materials. These publications were updated to incorporate the EGTRRA regulations as well as administrative changes.

Provider Representative Training (Informational)

Ms. Knudsen indicated at a previous board meeting staff informed the Board that although provider trainings conducted in the fall of 2001 were well attended, there was still a substantial number of provider representatives who have not satisfied the training requirements provided in the NDPERS administrative contract. In February staff sent letters to the home office contacts for each provider company, citing the contractual requirements and including a list of representatives not in compliance with the contract. This letter also asked that any alternate training programs be submitted for board approval by March 18, 2002. No alternate proposals were received by the PERS office. However, one provider did send a letter to its representatives informing them of the requirement. Ms. Knudsen updated the Board on the status of the provider representative attendance at the provider trainings which were held in April. Ms. Knudsen indicated staff will be sending a Notice of Intent to Suspend Active Provider Status to any provider company who had representatives who have not met the contractual requirements and request their responses for the Board's

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review by the next regularly scheduled meeting. The Board indicated its concurrence with this approach.

457 Plan Survey (Informational)

Mr. Reinhardt provided a brief overview of the survey results of Waddell & Reed members to the Board. Ms. Tabor requested staff to follow up with Waddell & Reed on the results of this survey.

MISCELLANEOUS

E-Business Consultant (Board Action Requested)

Ms. Schiermeister indicated the agency's budget for 2001-2003 included funding for projects to allow members and employers to access benefit information and complete certain benefit forms by using either an Interactive Voice Response (IVR) phone system or the Internet. She conveyed this was one of the larger and more complex IT projects that PERS has undertaken. Staff will be working with ITD on this project who also has limited experience with projects of this nature. Therefore, staff requested approval to retain L.R. Wechsler, an outside consultant, to participate in the development requirements for the project and to develop an action plan. Once the plan is developed, the internal IT staff will be used to manage this project. The proposal from L.R. Wechsler was included with the board materials. Discussion followed.

MS. TABOR MOVED APPROVAL TO RETAIN L.R. WECHSLER, LTD. MR. BAETSCH SECONDED THE MOTION.

Ayes: Baetsch, Gunkel, Leingang, Sage, Tabor, Chairman Strinden

Nays: None

Absent: Dr. Dwelle

PASSED

Information Technology (IT) Strategic Plan (Informational)

Ms. Schiermeister reviewed the agency's Information Technology Plan that was submitted to ITD on March 15, 2002. The plan provides an overview of the

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agency's IT accomplishments for the past 2 years and the proposed IT activities for the next 2 years. The plan also includes the IT goals and objectives, which were taken directly from the agency's business plan.

Quarterly Consulting Report (Informational)

Per the Board's request, Ms. Schiermeister compiled a list of consulting, investment and administrative fees paid to the consultants during the quarter ended March 31, 2002. In the future, this information will be provided to the Board on a quarterly basis.

Biennial Survey Report (Informational)

Mr. Reinhardt reviewed the results of the 2001 survey of NDPERS Benefits. The survey results are on file and available for review at the NDPERS office.

Executive Director's Review (Board Action Requested)

The Board conducts their review of the Executive Director each year. In the past, the Board has appointed several members to lead the review. Included with the board materials was the format that has been used in previous years and an alternate format that was developed last year by Mr. Leingang and Mr. Baetsch. By general consensus, the Board agreed to use the format has been used in previous years for the Executive Director's evaluation this year and to use the alternate format for next year's evaluation.

MS. TABOR MOVED TO APPOINT MR. BAETSCH AND MR. LEINGANG TO SERVE AS A COMMITTEE FOR COORDINATING THE EVALUATION OF THE EXECUTIVE DIRECTOR. MR. SAGE SECONDED THE MOTION.

Ayes: Baetsch, Gunkel, Leingang, Sage, Tabor, Chairman Strinden

Nays: None

Absent: Dr. Dwelle

PASSED

Next Board Meeting

The next board meeting was scheduled for May 23, 2002.

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Chairman Strinden called for any other business or comments. Hearing none, the meeting was adjourned at 11:45 a.m.

Prepared by,

Kim Humann

Administrative Assistant